



**BUAD 306: Business Finance**  
**Syllabus – Fall 2014**

This course is co-taught by Professors Ahern and Frydman. Prof. Frydman teaches the first half of the course and Prof. Ahern teaches the second half of the course. During the first half of the course, Prof. Frydman handles all student interactions. During the second half, Prof. Ahern handles all student interactions. There are two teaching assistants that will be available during the entire semester.

Professor:	Kenneth Ahern	Cary Frydman
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Office Hours:	Tuesday & Thursday 2:30 pm – 4:00 pm	Tues. & Thurs. 2:30pm-4:00pm
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**Location and Meeting Times**

<b>Section</b>	<b>Days</b>	<b>Times</b>	<b>Location</b>
14782	MW	8:00 am – 9:50 am	HOH 1
14783	MW	10:00 am – 11:50 am	HOH 1
14786	MW	2:00 pm – 3:50 pm	HOH 1
14785	TTh	10:00 am – 11:50 am	HOH 2
14791	TTh	12:00 pm – 1:50 pm	HOH 2
14790	TTh	4:00 pm – 5:50 pm	HOH 2

**Course Description**

BUAD 306 is a fundamentals course in business finance. Finance is a way of thinking about economic problems that involve uncertainty over time. This course is designed to provide an introductory framework for understanding how financiers think, how they break down components of a financial problem, and how they make decisions as investors and corporations in the financial market. By the end of the semester, you should be familiar with financial vocabulary, understand aspects of financial theory, develop skills in financial computation, and appreciate the underlying financial mindset as well as incentives involved when solving problems of finance. You will learn how to determine risk, how to make decisions, and how to value an investment as a potential financial opportunity.

## Course Learning Objectives

Through lecture, case analysis, worked samples, and by learning to apply appropriate mathematical and financial formulas and functions, you will be able to:

1. Understand basic types, goals, and implications of financial management and the role of the financial decision-maker.
2. Interpret financial statements and how they influence long-term planning and growth.
3. Understand the meaning of *time value of money* and how to evaluate the trade-off between dollars today and dollars sometime in the future.
4. Understand how firms decide to commit capital and its impact on cash flow (discounted cash flow).
5. Understand interest rates and bonds and realize how interest rates impact bonds.
6. Understand the different criteria used to evaluate proposed investments (e.g., net present value (NPV), profitability index, payback period).
7. Determine the cost of capital, and understand and apply the concepts of the *weighted cost of capital* (WACC).
8. Recognize and understand the elements of optimal capital structure, the effects of financial leverage, bankruptcy, and the role of taxes.
9. Understand the dynamics of behavioral finance and its influence on individual and corporate financial decision-making (e.g., the impact of heuristics).
10. Understand derivatives, or *options*, in the context of corporate finance.

These course level objectives align with selected Marshall Program Learning Goals. Please see table in Appendix for specifics.

## Required Materials

- *Fundamentals of Corporate Finance*, Tenth (Alternate) Edition by Ross, Westerfield and Jordan.
- Calculator with financial functions. We will teach from the Texas Instruments BA II Plus Professional. Other calculators are similar, such as the BA II Plus, the Hewlett Packard 17bII+, and Hewlett Packard 10bII. Many graphical calculators, such as the TI-83, have built-in financial functions. However, it is the student's responsibility to learn the functions of their particular calculators. You should bring your calculator to all classes and exams. *You will be extremely disadvantaged if you do not have your calculator during exams.* During exams you will not be allowed to use cellphone calculators, computers, or any other device that can communicate to other devices, so learning how to use the financial calculator is essential for success in the class.

**Prerequisites:** ACCT 410, BUAD 250a, BUAD 280 or BUAD 305.

**Course Notes:** Copies of lecture slides and other class information are available through your Blackboard account.

## Grading Summary:

<u>Assignments</u>	<u>% of Grade</u>
Exam 1	23%
Exam 2	23%
Exam 3	23%
Exam 4	23%
Homework (1% for each of 8 homework assignments)	8%
<b>TOTAL</b>	<b>100%</b>

Final grades represent how you perform in the class relative to other students. Your grade will not be based on a mandated target, but on your performance. Historically, the average grade for this class is about a (B). Three items are considered when assigning final grades:

1. Your average weighted score as a percentage of the available points for all assignments (the points you receive divided by the number of points possible).
2. The overall average percentage score within the class.
3. Your ranking among all students in the class.

## Assignments and Grading Detail

Your grade is made up of the following categories:

1. **Exams.** All exams are closed book, closed notes. Financial calculators are allowed and recommended, but E-devices (cell phones, PDAs, I-Phones, Blackberries, other texting devices, laptops, i-pods, etc.) are not allowed. You will be provided with any relevant equations (and some irrelevant ones). All exams will use the Scantron multiple choice format. Students must provide their own pencils. Students must take the exam in the lecture section in which they are registered.

**All four exams are 80 minute-timed exams held during regular class meeting times and in the regular class location. Therefore, there are no conflicts of exam times with any other course at USC.**

### Exam Absence Policy

Students are required to be present for all four exams. If you are not able to take the exams on the dates and times specified in the detailed schedule, you should not take this class.

There will be no make-up exams. However, there are legitimate reasons for missing an exam. If you provide documentation of serious medical problems or crime incidents for missing a midterm exam, the other exam scores will be re-weighted to accommodate the missing score. However, if you miss more than one exam, we will be unable to assign a complete grade to you.

2. **Assignments.** The homework grade will be assessed over 8 assignments, each due at 11:59 pm on the date listed in the schedule below. Assignments must be submitted electronically via Blackboard. Assignments will be given a grade of “credit” or “no credit”. Homework will be assigned a “credit” if and only if the assignment is reasonably complete and correct. Working in groups is encouraged, but each group member must turn in his or her own separate write-up. Identical or *nearly identical* answers will result in “no credit” for all parties. Solutions sets will be posted on the class Blackboard site.

#### **Assignment Submission Policy**

Assignments must be turned in on the due date/time electronically via Blackboard. Any assignment turned in late, even if by only a few minutes, will receive no credit.

***Homework will not be returned.*** Please keep a copy of your homework for reference. Homework assignments are kept in electronic storage in case they are needed for re-grades or grade disputes. Answers to the homework will be posted online for students to evaluate their performance.

#### **Technology Policy**

Personal computers and wireless Internet are a key part of today’s technological culture, but they also can distract you from the class discussion and dampen participation. You may bring your laptops/iPads etc. to class for note-taking, but please refrain from browsing the internet, updating your Facebook profile, playing games, instant messaging, shopping, etc. Although you may think you are being discreet, 90% of the time students engaging in such behavior give themselves away (through inappropriate facial expressions, lack of eye contact, out of sync typing, etc.). Use of computer in the classroom is a privilege. If you abuse this privilege, laptops may be banned from the classroom.

#### **Teaching Assistants**

The teaching assistants are listed at the top of the syllabus. The TAs will hold regular office hours and can answer questions on the material during office hours or via email.

#### **Tutoring**

Tutoring is offered through the Marshall Office of Undergraduate Advising as a supplement to classroom instruction. Tutors are able to assist students in understanding difficult concepts, but tutoring sessions are only effective if students regularly attend class and actively engage in the process of thinking critically about the course content. For more information on tutoring, visit the Marshall Office of Undergraduate Advising in BRI-104 (213-740-0690), or <http://students.marshall.usc.edu/undergrad/advising/>.

#### **MARSHALL GUIDELINES**

### **Add/Drop Process**

This class will remain open enrollment (R-clearance) for the first three weeks of the semester. If there is an open seat, students will be freely able to add a class using Web Registration throughout the first three weeks of the term. If the class is full, students will need to continue checking Web Registration to see if a seat becomes available. There are no wait lists and the professor cannot add students. See USC guidelines here:

[http://www.usc.edu/dept/publications/cat2012/private/pdf/2012\\_2013/academic\\_policies\\_12.pdf](http://www.usc.edu/dept/publications/cat2012/private/pdf/2012_2013/academic_policies_12.pdf)

- Waitlist. There are no centralized wait lists for Marshall undergraduate courses. Although there are no wait lists, the Undergraduate Advising Office provides a system by which students can indicate their interest in enrolling in classes that are currently full in order to track demand and manage classroom space effectively.
- Dropping Students. The professor may drop any student who, without prior consent, does not attend the first two class sessions. The instructor is not required to notify the student that s/he is being dropped.

### **Statement for Students with Disabilities**

Any student requesting academic accommodations based on a disability is required to register with Disability Services and Programs (DSP) each semester. A letter of verification for approved accommodations can be obtained from DSP. Please be sure the letter is delivered to Prof. Frydman **by Thursday September 11**. DSP is located in STU 301 and is open 8:30 a.m.–5:00 p.m., Monday through Friday. The phone number for DSP is (213) 740-0776. For more information visit [www.usc.edu/disability](http://www.usc.edu/disability).

### **Statement on Academic Integrity**

USC seeks to maintain an optimal learning environment. General principles of academic honesty include the concept of respect for the intellectual property of others, the expectation that individual work will be submitted unless otherwise allowed by an instructor, and the obligations both to protect one's own academic work from misuse by others as well as to avoid using another's work as one's own. All students are expected to understand and abide by these principles. SCampus, the Student Guidebook, contains the Student Conduct Code in Section 11.00, while the recommended sanctions are located in Appendix A. <http://www.usc.edu/dept/publications/SCAMPUS/gov/>

Students will be referred to the Office of Student Judicial Affairs and Community Standards for further review, should there be any suspicion of academic dishonesty. The Review process can be found at: <http://www.usc.edu/student-affairs/SJACS/> Failure to adhere to the academic conduct standards set forth by these guidelines and our programs will not be tolerated by the USC Marshall community and can lead to dismissal.

### **Emergency Preparedness/Course Continuity**

In case of emergency, and travel to campus is difficult, USC executive leadership will announce an electronic way for instructors to teach students in their residence halls or homes using a combination of Blackboard, teleconferencing, and other technologies. Instructors should be prepared to assign students a "Plan B" project that can be completed at a distance. For additional information about maintaining your classes in an

emergency please access: <http://cst.usc.edu/services/emergencyprep.html>

Please activate your course in Blackboard with access to the course syllabus. Whether or not you use Blackboard regularly, these preparations will be crucial in an emergency. USC's Blackboard learning management system and support information is available at [blackboard.usc.edu](http://blackboard.usc.edu).

### **Incomplete Grades**

In incomplete (IN) grade may be assigned due to an “emergency” that occurs after the 12<sup>th</sup> week of classes. An “emergency” is defined as a serious **documented** illness, or a **documented** unforeseen situation that is beyond the student’s control, that prevents a student from completing the semester. Prior to the 12<sup>th</sup> week, the student still has the option of dropping the class. Arrangements for completing an IN course should be initiated by the student, and negotiated with the instructor. Class work to complete the course should be completed within one calendar year from the date the IN was assigned. The IN mark will be converted to an F grade should the course not be completed.

**COURSE READINGS/CLASS SESSIONS**

- Students should read the assigned chapter(s) BEFORE the associated lecture date.

<b>Week</b>	<b>Days</b>	<b>Instructor</b>	<b>Topic</b>	<b>Chapters</b>	<b>Homework Due</b>
AUG 25-26	M/T	Frydman	Introduction to Corporate Finance <i>What does a financial manager do? Forms of Business Organization, Goal of Financial Mgmt, Agency Problem, Principal-Agent Problem, Incentives</i>	1	
AUG 27-28	W/Th	Frydman	Financial Statements <i>Balance Sheet, Income Statement, Average versus marginal tax rates, Operating Cash Flow, Change in Net Working Capital, Standardized Financial Statements, Sources and Uses of Cash, Ratio Analysis</i>	2 & 3	
SEP 1-2	M/T		<b>Labor Day - No Class Monday and Tuesday</b>		
SEP 3-4	W/Th	Frydman	Time Value of Money <i>Future Value and Compounding, investing for a single period, compound growth, lump sum versus payments, Present Value and discounting, present versus future value, determining the discount rate, single period present value, lump sum versus payments</i>	5	<b>9/4</b>
SEP 8-9	M/T	Frydman	Discounted Cash Flow Valuation <i>Future and Present Values of multiple cash flows, Valuation of Annuities, Perpetual Bonds, Future value of Annuities, Annuities Due</i>	6	
SEP 10-11	W/Th	Frydman	Discounted Cash Flow Valuation <i>Effective Annual Rates, Calculating and comparing rates, EAR versus APR, Continuous Compounding, Loan Types, Amortization, Pure Discount Loans, Interest Only loans, Amortized Loans</i>	6	<b>9/11</b>
SEP 15-16	M/T	Frydman	Review for Exam 1		
SEP 17-18	W/Th	Frydman	<b>Exam 1</b>		

SEP 22-23	M/T	Frydman	Interest Rates and Bond Valuation <i>Bonds and valuation of bonds, Bond Features, Interest Rate Risk, Default and Credit Risk, Re-investment rate risk, Bond Indenture, Debt or Equity? Long Term Debt, Government Bonds, Corporate Bonds, Mortgage Bonds, Floating Rate bonds, Zero Coupon Bonds</i>	7	
SEP 24-25	W/Th	Frydman	Interest Rates and Bond Valuation <i>Bond Ratings, Moody's and Standard and Poors, Investment Grade versus High Yield (Junk) Debt, Real versus nominal rates, Fisher Effect, Term Structure of Interest Rates – Yield Curve</i>	7	
SEP 29-30	M/T	Frydman	Stock Valuation <i>Zero Growth, Constant Growth Model, Shareholder Rights, Common Stock versus Preferred Stock, Cumulative versus non-cumulative, Dealers and Brokers, NYSE, NASDAQ</i>	8	<b>9/30</b>
OCT 1-2	W/Th	Frydman	Net Present Value and Other Investment Criteria <i>NPV estimate, Payback Rule, Internal Rate of Return, Discounted Payback, Profitability Index, Capital Budgeting</i>	9	
OCT 6-7	M/T	Frydman	Net Present Value and Other Investment Criteria <i>IRR versus NPV, Mutually Exclusive Projects, Nonconventional cash flows, NPV profile, Acceptance and rejection rules for each capital budgeting criteria</i>	9	<b>10/7</b>
OCT 8-9	W/Th	Frydman	Review for Exam 2		
OCT 13-14	M/T	Frydman	<b>Exam 2</b>		
OCT 15-16	W/Th	Ahern	Making Capital Investment Decisions <i>Incremental Cash Flows, Pro Forma Statements, Side Effects, Sunk Costs, Opportunity Costs, Net Working Capital, Financing Costs</i>	10	



OCT 20-21	M/T	Ahern	Making Capital Investment Decisions <i>Depreciation (MACRS) , Operating Cash Flow – alternative definitions, Setting a Bid Price, Cost Cutting Proposals</i>	10	<b>10/21</b>
OCT 22-23	W/Th	Ahern	Capital Market History <i>Returns thru time for different asset classes, Historical record, Risk premiums, variability of returns, average versus geometric, capital market efficiency</i>	12	
OCT 27-28	M/T	Ahern	Return, Risk, and Security Market Line <i>Expected Returns and variances, portfolio weights and expected returns, unexpected returns, Systematic and unsystematic risk, diversification</i>	13	
OCT 29-30	W/Th	Ahern	Return, Risk, and Security Market Line <i>Systematic risk and beta, Portfolio beta, Security Market Line, Reward to risk ratio, Beta and the risk premium, Capital Asset Pricing Model (CAPM), Cost of Capital</i>	13	<b>10/30</b>
NOV 3-4	M/T	Ahern	Review for Exam 3		
NOV 5-6	W/Th	Ahern	<b>Exam 3</b>		
NOV 10-11	M/T	Ahern	Cost of Capital <i>Cost of Capital, Cost of Equity, Cost of Debt, Cost of Preferred Stock</i>	14	
NOV 12-13	W/Th	Ahern	Cost of Capital <i>Weighted Average Cost of Capital, Divisional Cost of Capital, Project Cost of Capital</i>	14	
NOV 17-18	M/T	Ahern	Financial Leverage and Capital Structure Policy <i>Capital Structure Question – Debt or Equity Financing? Effect of Financial leverage, Cost of equity or debt? M&amp;M proposition I&amp;II</i>	16	<b>11/18</b>

NOV 19-20	W/Th	Ahern	Financial Leverage and Capital Structure Policy <i>M&amp;M proposition I and II with and without corporate taxes, Bankruptcy Costs, Optimal Capital Structure, Bankruptcy liquidation versus reorganization</i>	16	
NOV 24-25	M/T	Ahern	Dividends and Payout Policy <i>Cash dividends, stock dividends, Low payouts versus high payout ratios, tax and legal benefits, dividend policy, stock repurchase plans, stock splits, reverse splits</i>	17	<b>11/25</b>
NOV 26-27	W/Th		<b>Thanksgiving - No Class Wednesday and Thursday</b>		
DEC 1-2	M/T	Ahern	Review for Exam 4		
DEC 3-4	W/Th	Ahern	<b>Exam 4</b>		

**All exams for this course are held during regular class time in the regular location. There are no exams during USC's official Finals Week.**

**APPENDIX**

**Alignment of Course Learning Objectives with Marshall’s Six Undergraduate Program Learning Goals**

<b>Goal</b>	<b>Marshall Program Learning Goal Description Covered in this Course (Goals 1, 3, 5, and relevant selected sub-goals)</b>	<b>Emphasis/ Relation to Course Objectives</b>	<b>Relevant Course Topics</b>
<b>1</b>	<p>Our graduates will understand types of markets and key business areas and their interaction <i>to effectively manage different types of enterprises</i>. Specifically, students will:</p> <p>1.1 Demonstrate foundational knowledge of core business disciplines, including business analytics and business economics.</p> <p>1.2 Understand the interrelationships between functional areas of business so as to develop a general perspective on business management.</p> <p>1.3 Apply theories, models, and frameworks to analyze relevant markets (e.g. product, capital, commodity, factor and labor markets).</p> <p>1.4 Show the ability to utilize technologies (e.g., spreadsheets, databases, software) relevant to contemporary business practices.</p>	<b>High (Course learning objectives 1-10)</b>	Discussion of Net Present Value (NPV); Weighted Average Cost of Capital (WACC), etc.
<b>3</b>	<p>Our graduates will demonstrate critical thinking skills <i>so as to become future-oriented decision makers, problem solvers and innovators</i>. Specifically, students will:</p> <p>3.1 Students will understand the concepts of critical thinking, entrepreneurial thinking and creative thinking as drivers of innovative ideas (not explicit for this course).</p> <p>3.2 Critically analyze concepts, theories and processes by stating them in their own words, understanding key components, identifying assumptions, indicating how they are similar to and different from others and translating them to the real world.</p> <p>3.3 Be effective at gathering, storing, and using qualitative and quantitative data and at using analytical tools and frameworks to understand and solve business problems.</p> <p>3.4 Demonstrate the ability to anticipate, identify and solve business problems. They will be able to identify and assess central problems, identify and evaluate potential solutions, and translate a chosen solution to an implementation plan that considers future contingencies.</p>	<b>High (Course learning objectives 1-10)</b>	Discussion of ratio analysis; stock valuation; etc.
<b>5</b>	<p>Our graduates will demonstrate ethical reasoning skills, understand social, civic, and professional responsibilities <i>and aspire to add value to society</i>. Specifically, students will:</p> <p>5.1 Understand professional codes of conduct.</p> <p>5.2 Recognize ethical challenges in business situations and assess appropriate courses of action.</p>	<b>Moderate (Course learning objectives 1, 8, 9)</b>	Discussion of conflicts of interest; principal/agent problems; corporate governance, etc.
<p><b>Marshall Undergraduate Program Goals <u>not Explicitly</u> Covered by this Course (Goals 2, 4, 6)</b> (Continued next page)</p>			
<b>2</b>	<p>Our graduates will develop a global business perspective. They will understand how local, regional, and international markets, and economic, social and cultural issues impact business decisions <i>so as to anticipate new opportunities in any marketplace</i>. Specifically, students will:</p> <p>2.1 Understand how local, regional and global markets interact and are impacted by economic, social and cultural factors.</p> <p>2.2 Understand that stakeholders, stakeholder interests, business environments (legal, regulatory, competitor) and business practices vary across regions of the world.</p>		

<p><b>4</b></p>	<p>Our graduates will develop people and leadership skills to promote their effectiveness as <i>business managers and leaders</i>. Specifically, students will:</p> <p>4.1 Recognize, understand, and analyze the motivations and behaviors of stakeholders inside and outside organizations (e.g., teams, departments, consumers, investors, auditors).</p> <p>4.2 Recognize, understand and analyze the roles, responsibilities and behaviors of effective managers and leaders in diverse business contexts e.g., marketing, finance, accounting.</p> <p>4.3 Understand factors that contribute to effective teamwork.</p>
<p><b>6</b></p>	<p>Our graduates will be effective communicators <i>to facilitate information flow in organizational, social, and intercultural contexts</i>. Specifically, students will:</p> <p>6.1 Identify and assess diverse personal and organizational communication goals and audience information needs.</p> <p>6.2 Understand individual and group communications patterns and dynamics in organizations and other professional contexts.</p> <p>6.3 Demonstrate an ability to gather and disseminate information and communicate it clearly, logically, and persuasively in professional contexts.</p>